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What's in Store for 2009?

The events on the financial markets since the second half of September 2008 have seriously shaken the entire planet. Since then, we've seen an endless stream of bad news. What does the economy have in store for us in 2009?

With the end of 2008, the deterioration of global economic conditions quickly intensified. The economy's internal structures were put harshly to the test and were badly weakened in the process. In 2009, we will have to rebuild the global economy on a more solid foundation, and it will have to be done very carefully and meticulously because the risk of everything crumbling around us has become very real.

GENERALIZED RECESSION

Market sluggishness has now reached the global scale. Industrialized countries are the hardest hit, but emerging countries are also feeling the slowdown. Global economic growth will be only 1.5% in 2009, and the U.S. will see a 1.2% decline in its real gross domestic product (GDP). The recession will be quite deep and recovery will be plodding. It's going to take time before the financial sector "detox diet" shows results.

At the mercy of the faltering U.S. economy as well as of gas and commodities prices, Canada will have to go through three consecutive quarters of negative growth, starting with the last quarter of 2008. Export companies are being sorely tested, and those that can't compete will disappear, leading to job losses. Investments are being delayed by tightened lending conditions, economic uncertainty and weak commodities prices. However, Canada can still be glad that it did not give in to the permissive attitude of U.S. mortgage lenders; its financial system has remained in much better health as a result.

Of the provinces, Ontario will be the hardest hit, with a 0.7% drop in its real GDP in 2009, compared with 0.3% for Canada as a whole. New Brunswick and British Columbia are the two other provinces likely to suffer the most. Falling interest rates and the governments' highly expansionist budget policies should help the economy gradually regain buoyancy starting in the summer.

Québec can be happy that its roads and infrastructures were so bad that repairs couldn't wait. Thanks also to increased investments from Hydro-Québec, lower taxes and an industrial sector based more on aeronautics than on cars, the province was able to take advantage of an economic stimulation plan even before anyone had a whiff of the possibility of an eventual slow-down. Québec will not escape the recession, however, as economic growth in 2009 will be zero. What we experience will be a "technical" rather than a "classic" recession, however, similar to the more recent periods in which Québec recorded declines in two consecutive quarters (1995, 2001 and 2003). The province should, therefore, make it through the recession with rather limited damages.

CONSUMER CONFIDENCE IS THE KEY TO THE SOLUTION

All eyes are now on consumers. They hold the key to breaking the current economic impasse, as the only ones who can give the economy the boost it needs to get back on the growth track. But this is a task of Herculean proportion, especially in the U.S., where consumer confidence has reached historic lows. U.S. consumers are seeing the value of their real estate assets plummet by an average of 22% and the value of their stock portfolios by more than 40%, and they are unable to borrow money to buy new cars or other durable goods. Not to mention the fact that many Americans are steeped in debt and, at the same time, are worried about losing their jobs.

To re-establish consumer confidence, we will need to see more action by the monetary authorities as well as more expansionist budget policies. The impact of each dollar injected into the economy needs to be maximized. The economic plan implemented by the Bush administration last spring didn't turn out as well as it might have, and the fresh money received by taxpayers was not enough to reboot the economy. Rather, it was used to increase savings and decrease household debt. However, in 2009, consumers can look forward to better interest rates and much lower prices at the pumps.

The next economic stimulation plan in the States will have to be much better and will have to attack the roots of the problem, the largest of which are probably the real estate market, which continues to drop, and job losses, which continue to rise. Slowing down these two factors could perhaps bring back a bit of confidence to American households. In Canada, the need for an economic revival plan is less glaring. An increase in public spending would, nevertheless, be welcome and the implementation of a bail-out program for certain sectors would help prevent too many job losses.

> "Consumers hold the key to breaking the current economic impasse.."

UPSWING LESS SPECTACULAR THAN PLUNGE

Everyone is now anxiously waiting to see what the stock markets have in store. Market losses over the past few months have been colossal and, since the markets generally act as precursors to economic growth, we can expect a change in worldwide stock market trends. But this change probably won't come for several months and the upswing will likely be much less spectacular than the plunge. The recovery will not really be felt before mid-year and, until then, the markets will be rather volatile. Bargain hunters will have plenty of time to pick out the stocks that will make the most of the revival.

With no upturn in either business or consumer lending, it will be hard for the economy to bounce back. Investors are looking for security above all, and they accept the fact that they have to sacrifice returns to get it. Obviously, those with liquid assets are leading the markets right now. Companies know this all too well (particularly the three big automobile manufacturers in the U.S.), and the ones that accumulated cash assets during better times will fare much better in the current crisis.

THE DOLLAR WILL RISE AS GAS PRICES GO UP

Last summer's sharp rise in gas prices combined with the start of the global recession have provoked a surprising drop in oil consumption, which threw off the market. Right now, gas prices are low and could even go below US$40 a barrel. The same thing will happen with other commodities as well. The only thing that will bring prices back to levels that will encourage continued exploration and ensure a sufficient long-term supply that meets ever-changing future demands is a return to sustained worldwide economic growth.

Fears of emerging countries creating an upsurge in the demand for oil and commodities should resurface towards the end of 2009. The loonie might thus fall temporarily below US$0.75, make a comeback at the beginning of 2009 and go back up to around US$0.90 at the end of 2009. Export companies should, therefore, take advantage of the current slowdown to review their ways of doing things and identify any weaknesses in their production processes in order to correct them and increase productivity. Now is the time to clean house and start over on a much more solid foundation. The financial system will have to undergo a similar process. D

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